

RevEx Issue #6/#7 (Feed tonnage) Meeting Notes

3/30/16

Present: Sherry Hackworth, Mark Mentink, Kelli Caulum, John Manske, Jim Brunker, Jon Accola, Laura St. George, Al Schultz, Kerry Getter, Tom Bressner, Brett Perry, Jim Loefer, Joe Sikora, Heather Bartley, Jennifer Heaton-Amrhein, Lori Bowman, Amy Basel, Deb Viedma, Stephanie Statz, Robby Personette, Stacy Ashby and Mae Friederich

Lori Bowman opened the meeting at 9:35 am with a welcome and introductions. She reviewed the RevEx project and timelines for committee members.

Lori Bowman provided an update on the conceptual options presented at the last meeting. Based on the feedback received from industry at that meeting and additional staff analysis, Option 2—assessing the fee at the end of the chain—was rejected. The department felt that this option would require too many accounting changes for our smallest feed-only mills.

Robby Personette then went over the two remaining options: Assessing the inspection fee at every transaction or assessing the inspection fee at the beginning of the chain (the way it is now) with some modifications.

Every Transaction: The department reported that if the committee is interested in pursuing changing the inspection fee to be charged at every transaction, this would have to be a long-term option (more than 2 years to implement). DATCP does not have a good understanding of the number of transactions most feed passes through, and thus what the inspection fee should be. The department is willing to further explore this option if this is the preference of the committee. Members asked what it means for this to be a long-term option. Bowman stated that the department would not be able to pursue a change for this budget cycle (2017-2019) due to the need to survey industry and analyze lots of data, but for the 2019-2021 budget. She said that some changes to the current model (front-end assessment) could be made as an interim step.

Members asked about the statement that “duplicative fees was a con for this option”. Some felt that this would be ok if the inspection fee assessment was low enough and industry supported it. There was some talk that the fee could be assessed to customers.

The committee asked how the department would identify each transaction as many entities involved in feed transactions aren’t currently licensed. Bowman stated that this is why this is a long-term option. The department would need to delve into this to figure out what types of transactions there are, where they occur, how many there are, if any transactions should be exempt, and what the fee should be. Members asked if the department could estimate a fee and then do a fee holiday if revenue was too high. Bowman replied that while it is theoretically possible to charge a higher fee and then do a fee holiday if revenues exceed expectations, in reality, it would benefit industry to get the fee as accurate as possible from the start.

Front-End Assessment with Changes: The second option is that the department could continue to assess the inspection fee at the front-end of the feed chain as it is currently. However, the assessment would change to be the “first to distribute in or into Wisconsin” rather than the absolute first in the chain. Such a change would likely necessitate licensing some brokers, truckers and wholesalers who are

currently exempt under WI law. In addition, the department would simplify when an inspection fee must be assessed (not exempting anything except grain bank grain) and eliminate exempt buyer status and credits, which are areas of confusion. Everyone would be exempt selling out of state, but must have records to indicate product sales.

Members mentioned that recordkeeping requirements are all over the board for different agencies and purposes and it would be nice to be aligned.

Grain

Heather Bartley provided some training on grain and when it becomes a commercial feed in Wisconsin. Bartley noted that there is still some confusion on this topic. The committee stated that there have been inconsistent answers from DATCP staff over the years on feed issues. Bowman acknowledged that there have been a lot of staff transitions and issues in the feed program over the past 10 years, in particular, and that answers may not have been correct or consistent in the past.

Bartley stated that the department cannot change the definition of commercial feed. Some grain is not considered a commercial feed. Whole seeds, or grain that only has a physical change (i.e. cracking, not a chemical change), are considered grains not commercial feed. When a grain undergoes a process that changes it chemically (i.e. roasting or steaming)—so the protein, fat, fiber content is different—it becomes a commercial feed.

The proposal would exempt any unmixed and grain bank grain, as it is now, but assess the inspection fee on anything mixed (except cracked corn). The group requested the Department further clarify ‘physical’ versus ‘chemical’ change for the purposes of grains in a custom-mix to be reported annually as part of the tonnage report.

Members mentioned it would be easier to keep track of grains manufactured into floor-stocked feeds that fees need to be paid on. Discussion continued in the direction of mill-labeled feed being subject to the inspection fees, and custom-formula feeds being exempt from the inspection fees.

Members explained their different business models in how the grains are tracked. Some mills only custom-mix grain bank, never facility-owned grain. If a producer needs grain for a custom-mix, the feed mill’s grain department sells the corn to the producer and deposits the grain into that producer’s grain bank. Then the feed department uses the grain bank to manufacture the custom-mix feed. Some mills don’t have a grain department, and the grains show up on the producer’s custom-mix invoice as facility-provided grain.

Discussion ensued about the impact of nutritionists. For one feed mill, an employee-nutritionist creates mill-formulated feeds for producers, and for the same feed mill, a third-party nutritionist creates custom-mixed feeds for producers. Members communicated they’d like the nutritionist factor eliminated with regard to tonnage and inspection fees, and have the inspection fees due regardless of a nutritionist’s involvement.

There was definite consensus about the confusion regarding grain and what to do. More clarification and guidance, and additional data from the Department will be very beneficial to the future of this subject.

The committee questioned whether records could be kept electronically. Bowman stated that they could and that we will make sure this is clarified in what we write.

Bowman thanked the committee for the honest discussion and feedback and suggested that a survey of licensees might be helpful for us to get a better handle on how a change to how we might assess inspection fees on grain might impact the industry. Bowman stated that the department may work with some committee members on survey development and will let the entire committee know before the survey is sent out. Committee stated that careful wording of the survey and background information was needed. It was noted that the results may be skewed to the grain companies/elevators that will be affected. Lori stated that part of the purpose of the survey was to let people know that change is coming.

Feed Brokers and Jobbers

There was a lengthy discussion about feed brokers, many of whom are not currently licensed in WI. Brett Perry, representing _WWF Inc., joined the committee on the phone to describe his company's role as a "jobber" and how other states assess fees. Perry stated that Minnesota requires him to have a license and audits his company on a regular basis. Other states also require him to pay inspection fee, but only for what he ships into the state. The committee members feel that anyone who sells into the state or who labels should have a license – even if they are not repackaging or relabeling. In other words, "whoever the buyer of the feed pays" should have to have a license and pay the inspection fees. Bowman noted that there can be a difference between who pays fees and who needs to be licensed. There was much discussion from the committee members about brokers of cottonseed, soybean meal and wet gluten not being licensed and not paying the inspection fee.

FSMA and its potential impacts were also discussed.

There was no consensus at the end of this meeting, although there was much discussion about grain and brokers. There is a clear lack of uniformity in the industry about how the existing laws are applied and followed. Bowman reiterated that the department will be following up with a survey, and that DATCP does not want to make any changes that will have negative, unintended consequences for industry.

Meeting adjourned at 1 pm.